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REORGANIZATION OF HUNGARIAN INDUSTRIAL MANAGEMENT ORGANS

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The rapid industrialization of Hungary during the last 1 1/2 years has been accompanied by a rise in the level of management, stricter supervision, and also many problems. New forms of economic organization had to be created and particularly long strides have been made toward the development of the independent accounting system. Prior to 1950 the two most important steps were the creation of state enterprises and the introduction of the local councils into economic management; during the period under review, the two most characteristic developments in economic management were the creation of intermediate management organs and the regulation of the organization of state enterprise (regulation of the duties of the chief engineer, chief accountant, and shop chief). Along with these developments, the economic ministries underwent a differentiation and are currently being reorganized in their interior setup and management methods. The object of this article is to analyze the reorganization of intermediate management organs.

At the end of 1950, there were five types of state enterprise, which were supervised by the ministries concerned or by the local councils either directly or through centers or associations. The association, which first appeared at the beginning of 1950, represented unified planning and financial management. It was first introduced in connection with small enterprises and represented a step toward decentralization as compared with the centers.

Although in the summer of 1948, when they were created, the centers represented a certain measure of decentralization, nevertheless, while the center was the intermediate management organization, the ministries still supervised each enterprise separately. The center was not authorized to regroup either the fixed or circulating capital of the enterprises under its jurisdiction, and

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operating plans were prepared by the ministries for each enterprise as a unit rather than for the center as a whole. Thus the center was not the directing organ of the enterprises but fulfilled only special supervisory functions for the ministry.

In addition, the centers were not in a position to assume responsibility, because of the great number of enterprises under their restricted jurisdiction. Theoretically the centers were responsible (except in regard to property rights) for the operations of the enterprises. Under Decree No 7,200/1948 Korm, the centers were authorized to take any measure to ensure the successful operation of the enterprises under their supervision. However, it was impossible to translate this regulation into practice. Since the enterprises supervised by the centers were too numerous and accounting and planning were not unified, production results and backlogs were reported to the ministries by each enterprise separately.

The association, on the other hand, represents unified planning and financial management. The ministries deal with the association and not with the enterprises directly. Also, the association has more authority. Under Decree No 102/1950 M.E., the director and chief accountant of an association are responsible for the operations of the enterprises supervised. However, associations were organized in 1950 only for the supervision of smaller enterprises, since qualified personnel for the supervision of larger enterprises was not available.

In 1951, conditions warranted the creation of a higher type of intermediate management organization in the form of trusts (Decree 122/1951 M.T.) to displace the center. The trust has both the authority and the organization to direct enterprises. It is a smaller organ than the center, may operate under the jurisdiction of a ministry or of a local council, and is not necessarily organized horizontally. Thus, in the building industry the trusts supervise enterprises in various branches of production [e.g., brick manufacturing or structural steel production].

The principal difference between the trust and the association is that the former has more comprehensive responsibilities in the direction of the enterprises. It is true that fixed capital is allocated to the enterprises directly; however, the trust has the right to re-allot it among its enterprises, while the circulating capital is distributed among the enterprises by the trust.

Also, the trust is allocated a reserve fund by the ministry which it may use in its discretion for supplementing the special requirements of the enterprises. The plan is established by the ministry for the trust as a whole and is broken down by the trust for the constituent enterprises. The same principle holds for financial management. The accounts of the trust comprise the combined economic results of the enterprises under its jurisdiction.

The trust is an economic unit, it relieves the ministry of having to deal with the enterprises separately, assumes responsibility for the fulfillment of the plans of the enterprises which it supervises, and is their unrestricted director. The creation of the trust represents a forward step in the decentralization of industrial management. It does not diminish the independence of the enterprises; on the contrary, it relieves the enterprises of having to submit their problems to the ministry through the center and helps solve them at enterprise level. In this connection, it may be pointed out that this article does not concern itself with the role of the trust under the civil code. For example, the trust is responsible for the debts of its enterprises as simple guarantor; however, the technical aspects of this responsibility within the framework of the present single-account system have not yet been clarified.

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The trend has been toward creating intermediate management organs which would deal with higher-level organs as a whole, and would direct and supervise the enterprises separately. As a result, high-level organs could devote their entire activities to policy-making; intermediate organs would have increased responsibilities; and management would be brought closer to production. The trend is illustrated by the course which the development of management has followed. In 1947, plans for all enterprises were prepared by the National Planning Office. In 1948, plans for only certain enterprises were drawn up by the National Planning Office, while the plans of the remaining enterprises were prepared by the ministries on the basis of index numbers calculated by the National Planning Office. At present, the National Planning Office does not prepare any plans for individual enterprises, except for enterprises which are operated by the ministries/e.g., MAVAG, State Railroads, Matyas Rakosi Works, Ganz Shipyards, etc. The preparation of plans, which had previously been drawn up by the ministries, was later transferred to the associations. All these developments may be summed up as the extension of the decentralization process.

Two problems emerged from the creation of the trusts: (1) the relationship between trust and association and (2) the difference between Soviet and Hungarian trusts.

1. The association comprised a smaller area than the trust and was a planning and financial unit. Usually it had a small number of small enterprises under its jurisdiction and important decisions were taken by the association rather than by the enterprises. After the creation of the trusts, the existence of associations was no longer justified; in fact, a large number of trusts were formed out of associations last year. It appears probable that the associations will be abolished. This development is foreshadowed by the recent reorganization of the Ministry of Light Industry, in the course of which a large number of associations have been abolished. In this connection, the legal problem arises of whether the enterprises operating under an association are independent legal persons. Under the law they are. On the other hand, they do not have property of their own and a so-called single account is maintained with the National Bank by the association. In short, the enterprises are operating for the account of the associations.

2. The Hungarian trusts were patterned after the Soviet trusts. However, there is an important difference from the viewpoint of the relationship between trust and enterprise. In the USSR, at the beginning of the NEP, practically all Soviet enterprises were operating under the jurisdiction of trusts in a three-stage system. The trusts were originally the plan units and the enterprises had no independence. In the course of development most enterprises gradually became independent of the trusts and the trust was transformed into a directing organ. In Hungary, development followed a different course. In 1948, a national economic plan was formulated and centralization was not necessary. The enterprises were not compelled to liquidate their marketing connections. Thus, each enterprise retained its identity, both as a legal entity and in planning. As a result of this development, the ministries transferred more and more responsibilities to the intermediate management organs, instead of having the latter grant increased independence to the enterprises.

The decentralization process, represented by the creation of trusts, is but one of the characteristic features of industrial management during the last 1½ years. At the same time the three-stage system has been gradually giving way to the two-stage system.

The trust has been endowed with a wide scope of jurisdiction in the direction of the enterprises and thereby brings management closer to production. This

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however, represents but the optimum form of the three-stage system and has certain disadvantages as compared with the two-stage system. It is impossible to solve all problems of an enterprise on the trust level and some of the problems must be referred to the ministries. The present trend is, therefore, to widen the two-stage system by attaching newly-created enterprises, which are mostly large-scale producers, directly to the ministries. However, the various ministerial departments cannot supervise too many enterprises and a ministry, in turn, cannot supervise a very large number of departments. For this reason, the extension of the two-stage system is accompanied by certain changes in the organization of the ministries. One of the changes is to divide a ministerial department into several sections. This often takes place in the form of consolidation of a center with a department.

Concurrently, the economic ministries are splitting up. Following the pattern of Soviet development, the differentiation process of ministries is under way in Hungary, too. First, the Ministry of Heavy Industry was split into two ministries, and later a whole series of new ministries was created. More recently the departments of the Ministry of Light Industry have increased in number to an extent which foreshadows the division of this ministry also.

The differentiation of the ministries is, therefore, a prerequisite for the extension of the two-stage system of economic management. Together with decentralization, it moves management closer to production. Differentiation of ministries is first of all a question of qualified personnel, since it involves a great increase in top supervisory personnel. Incidentally, another development in the organization of economic ministries may be mentioned. On the basis of Soviet experience, the ministerial departments are gradually being transformed into directorates with independent accounting and increased operational functions.

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